OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

August 14, 2013

Benchmarking of Costing Methodologies

Report Number MS-MA-13-004

BACKGROUND:

The U.S. Postal Service's product-costing system is designed to meet the statutory reporting requirements that each class of mail bears the costs to that class or service and inform management decisions. The system, refined over many years, commenced with passage of the Postal Reorganization Act of 1970.

Costing data are derived from the accounting system, with costs attributed to products based on data from manual sampling, statistical systems, and special studies. This is the second of two reviews requested by the chief financial officer and executive vice president. The first described the background and history of the Postal Service's costing methodologies and concerns with those methodologies. The objective of this review was to identify potential enhancements to the current Postal Service's costing approach that could be used to better inform business decisions and competitive pricing.

This report identifies evolutionary enhancements to the current costing system. However, as the Postal Service's costing needs become increasingly complex, entire alternative costing systems should also be evaluated. Therefore, at the request of the postmaster general, we will separately review whether new approaches to costing would better meet the evolving needs of the Postal Service in the 21st Century.

WHAT THE OIG FOUND:

While the Postal Service uses several best practices in product costing, changes are needed to reduce postal investments in the process and improve the usefulness of the resulting data. Such improvements include moving from expensive manual data collection systems to an increased use of automated data collection systems. Currently, the Postal Service spends about $100 million annually to develop the costing data reported to the Postal Regulatory Commission.

Further enhancements include the use of more granular data, more timely reporting (some reporting is quarterly and some is annual), and better coordination among groups within the Postal Service.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service enhance its current product-costing system by establishing an organization-wide strategy, better coordinating among functional units regarding data usage, and generating more granular and timely costing information.